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## Russian Federation

### Solid Wood Products

### Russian Tariff Policy Update

### 2007

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**Report Highlights:**

On February 5, 2007, the Russian Government published Resolution No. 75, which went into effect on July 1, 2007, and increases the export tariff to 20 percent on coniferous logs. After April 1, 2008, and January 1, 2009, the export tariff will increase to 25 and 80 percent, respectively. Trade sources are not optimistic about this measure and foresee a major impact on Russia's main trade partners, particularly Finland, in the near future.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
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Moscow [RS1]  
[RS]

## Tariff Policy Update

On February 5, 2007, the Russian Government published Resolution No. 75 (went into effect on July 1, 2007), increasing the export tariff on coniferous logs to 20 percent, but not less than 10 euros per cubic meter. On April 1, 2008, the same tariff will increase to 25 percent, but not less than 15 euros per cubic meter; and on January 1, 2009, another increase to 80 percent, but not less than 50 euros, per cubic meter.

The changes are consistent with the Russian Government's efforts to develop the domestic timber processing industry by gradually increasing the export tariffs on logs. Russia aims to transform its role as a major supplier of raw materials to that of an exporter of value-added products.

On July 1, 2007, the draft resolution for selection criteria of priority forestry investment projects will be turned into law. Once finalized, the resolution will likely clarify the role that investors' preferences are to play in the development of the forestry industry with regard to processing in Russia, as well as effect other beneficial change, such as tax remission. The Russian Government is also working on other legislative changes aimed at increasing foreign investment in the forest industry, such as decreasing import tariffs on wood-processing technology.

## Comments

The change in the export tariff for unprocessed wood products is expected to have some long-term impact for Russia's main trade partners. The major destinations for Russian logs are China, Finland, and Japan. These markets account for 80 percent of Russia's unprocessed wood exports.

This issue was discussed during Prime Minister Fradkov's visit to Finland in early June. As part of the WTO access process, Russia and the EU signed a protocol, in which Russia commits to eliminating barriers to trade, such as the export tariffs. In light of such a commitment, Foreign Trade Minister of Finland, Paavo Vayrynen, stated that imposing tariffs at this stage "violates the spirit of the protocol, and the principles of trade policy."

It is estimated that one-fifth of all unprocessed timber used in Finnish industry is imported from Russia. Timber trade accounts for 25 percent of Finnish-Russian commodity turnover. According to the Russian Customs Service, Russia exported US\$758 million of wood products to Finland in 2006, and Finnish investments in Russia reached EUR2 billion in 2006, half of which was invested in timber processing.

The change in export tariffs is expected to increase the import costs of Finnish forestry processors. According to the Finnish Forestry Council, Finland imported 17 million m<sup>3</sup> of logs from Russia in 2006 and paid EUR30 million in customs tariffs. It is estimated that by 2010, the total customs tariffs for Finnish industry will go up to \$900 million. Russia's profits for exporting logs to Finland are estimated at EUR500 million annually. Finland will likely be forced to source timber from other suppliers, such as the Baltic states and Latin America.

According to the Forestry Council of Finland, although Russia is not a member of the WTO, the decision to increase export tariff rates violates the rules of the WTO. This situation contributes to Paavo Vayrynen's belief that Russia's WTO membership would be positive for Finland, because it would force Russia to adhere to all rules of international trade. This could solve many of the problems in trade between Finland and Russia.

Trade analysts predict an 80-percent decline in exports of Russia's unprocessed wood over the next 3 years, which is estimated to be between 7 and 9 million m<sup>3</sup> annually. By 2010, investment in the wood-processing industry is expected to nearly double to RUR20 billion (US\$785 million) as compared to RUR12.5 billion (US\$490 million) in 2006. Production output of the wood-processing industry is also estimated to increase by 75 percent, and the cellulose and paper industries by 55 percent.

The major obstacle for effective and rational use of unprocessed wood is a dearth of domestic modern processing facilities. Unprocessed wood exports are estimated to be 50 million m<sup>3</sup>, out of the estimated total domestic production of 186 million m<sup>3</sup>. Almost 50 percent of the 36,000 companies involved in forest logging are export oriented. From 2000 to 2004, exports of forest products increased by 134 percent in volume. Also, despite the Russian government's intentions to build 100 forest processing facilities in the last decade, none of these enterprises have been constructed to date.

Trade sources are not optimistic about the tariff change and believe that lowering export tariffs will not do enough to encourage the development of further timber processing. Only part of the raw material can be utilized at the local processing facilities, principally at the border oblasts. Facilities in Irkutsk oblast are processing only half of their capacity, while the major consumer of forest products from Irkutsk oblast is China. Valeriy Roshchupkin, Head of the Federal Forestry Agency, says, " We are creating very strict rules for exporting unprocessed wood. This is a principal and strong strategic decision. Basically, this is our line policy aimed at changing the structure of Russian export and to gradual import substitution."